

FREQUENTLY ASKED QUESTIONS on What Is A Renewal Community Business

Renewal Community tax incentives are generally designed to encourage business to locate or expand operations in the Renewal Community and to hire residents of the Renewal Community.

Only two Renewal Community incentives require that business qualify as a Renewal Community Business. They are the Zero Percent Capital Gain Rate and Increased Section 179 Deduction.

A business qualifies as a Renewal Community Business if it:

- * actively conducts business in the Renewal Community,
- * has its tangible and intangible property located and used in the active conduct of business in the Renewal Community,
- * employs residents of the Renewal Community (a required 35% of its employees), and
- * has its employees perform services in the Renewal Community.

The business can be a sole proprietorship, partnership or corporation for Federal tax purposes.

1) *What is a Renewal Community Business?*

In general, a Renewal Community Business is a corporation, partnership or sole proprietorship that, for each taxable year, meets the following tests:

- * Except with respect to a sole proprietorship, every trade or business of the entity is actively conducted in the Renewal Community (legally separated entities are not aggregated with related entities for these tests).
- * At least 50% of the total gross income of the entity is derived from the active conduct of business within the Renewal Community.
- * A substantial portion (typically 85%) of the use of the tangible property of the entity (whether owned or leased) is within the Renewal Community.
- * A substantial portion of the intangible property of the business is used in the active conduct of the business.
- * A substantial proportion of the services performed for the employer by its employees occur within the Renewal Community.
- * At least 35% of the employees reside in the Renewal Community.
- * No more than 5% of the property is nonqualified financial property (such as debt, stock, and various financial instruments) except for reasonable amounts of working capital held in cash, cash equivalents or debt instruments with a term of 18 months or less and certain accounts receivable arising from the sales of inventory.
- * No more than 5% of the property is works of art or other collectibles unless held for sale to customers.

FOR LOCAL INFORMATION, CONTACT:

Milwaukee Renewal Community Initiative c/o Urban Economic Development Association of Wisconsin, Inc. (UEDA),
P. O. Box 511561, Milwaukee, WI 53203-2602 • 414-225-0550 • www.milwaukeeetaxinfo.com

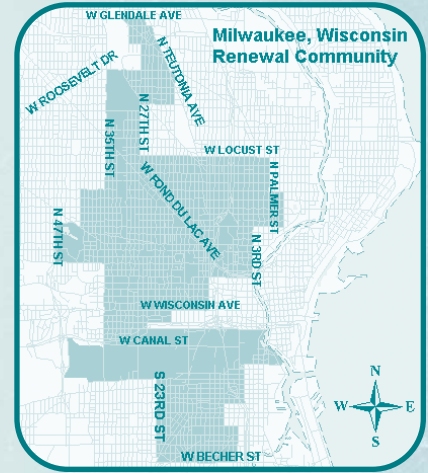
FREQUENTLY ASKED QUESTIONS

2) *How does a business know whether its building is located in the Renewal Community?*

The local Renewal Community is defined as shown on the adjacent map. For more information on specific boundaries, the business may obtain information over the Internet. Locally, the business may visit www.milwaukee-taxinfo.com or call Milwaukee Renewal Community Initiative Team at 414-255-0550.

US CENSUS BUREAU ADDRESS LOOKUP

- Go to US Census Bureau's American Fact Finder site. <http://factfinder.census.gov/>
- Click on "Enter a Street Address" found on the left side of screen. Follow the instructions to search on a specific street address.
- Determine if the property is located within one of the 53 census tracts that make up Milwaukee's Renewal Community. If you have a successful search, information regarding that address will appear, including the census tract. Match the census tract shown with the list of those below that comprise Milwaukee's Renewal Community. 42, 47, 63, 82, 83, 84, 85, 86, 87, 88, 89, 90, 96, 97, 98, 99, 100, 101, 102, 103, 104, 105, 106, 115, 116, 117, 118, 119, 120, 121, 122, 132, 134, 135, 136, 137, 138, 139, 140, 141, 142, 146, 147, 148, 149, 156, 157, 158, 163, 164, 167, 168, 169.



3) *Are there any types of businesses that cannot be Renewal Community Businesses?*

Yes. The tax law excludes certain businesses from the definition, including liquor stores, golf courses, racetracks, gambling facilities, country clubs, residential rental properties, businesses that predominantly hold or develop intangibles for sale or license, or businesses that rent personal property, such as car rental agencies (unless at least 50% of the rentals are to Renewal Community Businesses or Renewal Community residents).

4) *Can a high-technology company qualify as a Renewal Community Business?*

The answer depends on its operations. The tax law states that no business consisting predominantly of the development or holding of intangibles, such as patents or licenses, for sale or license can qualify as a Renewal Community Business.

5) *Can a real estate developer qualify as a Renewal Community Business?*

A business that develops and owns commercial real estate can qualify only if at least 50% of its gross rental income from real property is from Renewal Community Businesses. The owner is permitted to accept certifications of lessees in determining whether the lessee is a Renewal Community Business. If the project is residential rental property, the business is automatically excluded by statute from the definition of a Renewal Community Business.

6) *How does a business apply the tests if it has several locations?*

The tests generally apply to legally separate entities. If a single business entity has locations both within and outside the Renewal Community, all of the tests apply to the overall operations. If the various locations are operated by legally separate



entities, the tests apply only to that location's operations even if the various legal entities are related for Federal tax purposes. For example, if a national chain store or restaurant set up operations in the Renewal Community, the tests would be measured with respect to the Renewal Community location only if that store or restaurant was separately incorporated from the other stores or restaurants in the chain.

7) *What does it mean that “legally separated entities are not aggregated with related entities for the Renewal Community tests?”*

This rule permits businesses to set up separate corporations or partnerships to conduct business in a Renewal Community. All Renewal Community Business tests would be measured based on the Renewal Community Business and a business would not have to include any activities of other related entities outside the Renewal Community. Many other tax law provisions treat related entities as one business and require adding together the activities of all entities. This rule for Renewal Community Businesses is more lenient than other tax rules.

8) *If a company does establish a separate entity to conduct business within the Renewal Community, how does a business calculate the requirement that 35% of its employees be Renewal Community residents?*

The tax regulations relating to tax-exempt bonds permit calculation either on a per-employee fraction or an employee actual work-hour fraction. In the per-employee fraction method, the business would compare the number of Renewal Community resident employees in a taxable year to the total number of employees during the same taxable year. Employees include persons employed for at least 90 days and who work at least 15 hours per week.

The employee actual work-hour fraction seeks to accommodate businesses with full- and part-time workers and compares actual hours worked by Renewal Community residents to total employee hours in a taxable year.

A business must apply the same method consistently over the period of the tax incentive once a method is selected.

The same methods of determining the 35% test for other incentives may apply, but the Internal Revenue Service has not formally extended the rules at this time.

9) *Are there any waivers for businesses that meet requirements in all other areas but the 35% rule for Renewal Community employees?*

The 35% Renewal Community employee requirement is statutory and cannot be waived.

10) *How does a business know if it qualifies as a Renewal Community Business?*

There is no formal application process or certification process for being a Renewal Community Business. A business must analyze the requirements in light of its own operations and use the same standards it applies for taking any position on its Federal tax return. This requires a legal determination, so a business should consult a tax attorney or its tax preparer. The business should retain documents that establish that it is a Renewal Community Business, such as statements that an employee is a Renewal Community resident, in case of an audit.



As a result of this designation from the U. S. Department of Housing and Urban Development (HUD), businesses in the Milwaukee Renewal Community have access to an attractive package of wage credits, tax deductions for new construction and rehabilitation projects, and capital gains exclusions from January 1, 2002 through December 31, 2009.